

Message Text

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C O N F I D E N T I A L MADRID 9278

E.O.11652: GDS

TAGS: EFIN, SP

SUBJECT: GOS FISCAL POLICY

REF: MADRID 7932, MADRID 8609 (BOTH NOTAL)

1. SUMMARY. SUBSTANTIAL OIL PRICE INCREASE COULD FORCE GOS INTO STABILIZATION PROGRAM BEFORE ELECTIONS, ACCORDING TO UNDER SECRETARY OF FINANCE. ACCORDING TO SAME SOURCE, MORE RESTRICTIVE FISCAL POLICY DURING LATTER HALF OF 1976 PARTICULARLY IN ADMINISTRATION OF CENTRAL GOVERNMENT BUDGET, HAS HELD PUBLIC SECTOR DEFICIT TO APPROXIMATELY LEVEL FOR 1975 GOS HAS NOT YET PRESENTED PUBLIC SECTOR BUDGET FOR 1977 SINCE SOCIAL SECURITY BUDGET, FORCASTING AN EXPENDITURE INCREASE OF 26 PERCENT, HAS JUST BEEN PUT BEFORE COUNCIL OF MINISTERS. FULL PUBLIC SECTOR ESTIMATES MAY BE AVAILABLE BY END OF DECEMBER. END SUMMARY.

2. DURING DECEMBER 6 DISCUSSION WITH EMBOFFS, FINANCE MINISTRY DEPUTY SECRETARY FOR FINANCIAL POLICY (BASANTA DE LA PENA) EXPRESSED CONCERN THAT A SIGNIFICANT OIL PRICE INCREASE BY OPEC MIGHT FORCE GOS TO ADOPT STABILIZATION PRO-
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GRAM SOON IN ORDER TO CONTROL INFLATION AND REDUCE BALANCE

OF PAY DEFICIT. GOVERNMENT HAD HOPED TO AVOID STABILIZATION PROGRAM PRIOR TO ELECTIONS, HE SAID, BECAUSE OF CONCERN THAT SOCIAL AND ECONOMIC COST WOULD BE UPSETTING TO PROCESS OF POLITICAL EVOLUTION, INSTEAD IT HAD ATTEMPTED TO ACHIEVE A BALANCE OF RESTRICTIVE AND EXPANSIONARY MEASURES.

3. BASANTA SAID EXPENDITURE CUTS PLUS TAX INCREASES SINCE MID 1976 WOULD RESULT IN CENTRAL GOVERNMENT BUDGET DEFICIT FOR YEAR BEING ONLY 15 BILLION PESETAS AND OVERALL PUBLIC SECTOR DEFICIT ABOUT 100 BILLION PESETAS RATHER THAN 180 BILLION FORECAST AT MIDYEAR. AT THE SAME TIME, MONETARY POLICY HAS BEEN MORE EXPANSIONARY IN THE LAST QUARTER TO PROVIDE ADDITIONAL LIQUIDITY FOR PRIVATE SECTOR.

4. ACCORDING TO BASANTA, IN PRESENTING CENTRAL GOVERNMENT BUDGET FOR 1977 GOS WAS UNABLE TO INCLUDE CONSOLIDATED BUDGET ESTIMATES FOR ENTIRE PUBLIC SECTOR, BECAUSE IMPORTANT SOCIAL SECURITY BUDGET WAS NOT AVAILABLE. HE SAID LABOR MINISTER HAS NOW PROPOSED TO COUNCIL OF MINISTERS A 26 PERCENT INCREASE OVER 1976 FOR SOCIAL SECURITY EXPENDITURES. WHILE LABOR MINISTER HAS JUSTIFIED INCREASE ON BASIS OF RISE IN UNEMPLOYMENT PAYMENTS, EXPANSION IN SOCIAL SECURITY PROGRAM, WHICH INVOLVES HEAVY DEFICIT FINANCING, IS IN CONFLICT WITH GOVERNMENT'S INTENTION TO FOLLOW MODERATELY RESTRICTIVE FISCAL POLICY, FOLLOWING PATTERN OF HOLDING CENTRAL GOVERNMENT BUDGET INCREASE TO 19.4 PERCENT. MOREOVER, BASANTA NOTED THAT SOCIAL SECURITY SYSTEM WAS UNDER ATTACK FOR ALLEGED INEFFICIENT ADMINISTRATION. BASANTA SAID FULL PUBLIC SECTOR BUDGET, INCLUDING SOCIAL SECURITY AND AUTONOMOUS BODIES, SHOULD BE AVAILABLE BY END OF DECEMBER.

4. COMMENT: THERE IS NO DOUBT THAT GOS FISCAL POLICY HAS BECOME MORE RESTRICTIVE SINCE MID 1976. ACCORDING TO OFFICIAL DATA, CENTRAL GOVERNMENT ACCOUNTS WERE IN DEFICIT 34 BILLION PESETAS FOR FIRST QUARTER, BALANCED IN SECOND QUARTER, AND IN SURPLUS BY 15 BILLION PESETAS IN THIRD QUARTER. HOWEVER, WHETHER FINAL YEAR END DEFICIT WILL BE AS LOW AS 15 BILLION PESETAS IS STILL OPEN TO QUESTION. WEEK END PRESS REPORTED FINANCE MINISTRY SOURCES AS STATING CENTRAL BUDGET DEFICIT FOR 1976 WILL BE 20 TO 30 BILLION PESETAS
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WITH OVERALL PUBLIC SECTOR DEFICIT OF ABOUT 100 BILLION, OR ROUGHLY THE SAME AS DEFICIT FOR 1975. IN CONTRAST, FANK OF SPAIN DIRECTOR GENERAL FOR ECONOMIC STUDIES EXPRESSED VIEW TO EMBOFF IN NOVEMBER THAT FINANCE MINISTRY ESTIMATES WERE OVER OPTIMISTIC, AND THAT CENTRAL GOVERNMENT BUDGET DEFICIT WOULD APPROACH 30 BILLION PESETAS, RESULTING IN PUBLIC SECTOR DEFICIT FOR 1976 OF ABOUT 120 BILLION PESETAS (AND INCREASE OVER 1975 DEFICIT ABOUT EQUAL TO 1976 INFLATION

RATE). SINCE THE SOCIAL SECURITY BUDGET IS NEAR THE SIZE OF THE CENTRAL GOVERNMENT BUDGET (SOME 700 MILLION PESETAS FOR 1976) IT HAS A LARGE FISCAL IMPACT. HOWEVER WITH RISING UNEMPLOYMENT, A SUBSTANTIAL INCREASE NEXT YEAR IN SOCIAL SECURITY PAYMENTS IS PROBABLY INEVITABLE. PROJECTIONS FOR THE TWO OTHER IMPORTANT FACTORS IN PUBLIC SECTOR DEFICIT AUTONOMOUS BODIES (MOSTLY AGRICULTURAL SUBSIDIES) AND OFFICIAL CREDITS, ARE NOT YET AVAILABLE.

5. ALTHOUGH THE GOS EVIDENTLY ACHIEVED RELATIVE SUCCESS IN CONTAINING THE PUBLIC SECTOR DEFICIT IN THE SECOND HALF OF 1976, IT IS, AS HAS BEEN PREVIOUSLY REPORTED, PERMITTING MONEY SUPPLY TO INCREASE BY AN IMPRUDENT 21 PERCENT FOR THE YEAR, INFLATION CONTINUES AT AN 18-20 PERCENT RATE, AND BOP DEFICIT CONTINUES LARGE. THERE IS INCREASING TALK OUTSIDE THE GOVERNMENT OF THE NEED FOR STABILIZATION ACTION BEFORE ELECTIONS. BASANTA SEEMED TO HINT AT THE POSSIBLE USE OF A PETROLEUM PRICE INCREASE, WHICH WOULD AGGRAVATE AN ALREADY DIFFICULT SITUATION, AS JUSTIFICATION FOR SUCH ACTION. ON THE OTHER HAND SECOND VICE PRESIDENT OF GOVERNMENT OSORIO HAS RECENTLY INDICATED TO EMBOFF THAT GOVERNMENT WOULD NOT UNERTAKE STABILIZATION PROGRAM PRIOR TO ELECTIONS. STABLER

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